

SANTA CRUZ COUNTY

Audit Report

COURT REVENUES

July 1, 2004, through June 30, 2011



JOHN CHIANG
California State Controller

September 2012



JOHN CHIANG
California State Controller

September 5, 2012

Mary Jo Walker
Auditor-Controller
Santa Cruz County
701 Ocean Street, Room 100
Santa Cruz, CA 95061

Dear Ms. Walker:

The State Controller's Office audited Santa Cruz County's court revenues for the period of July 1, 2004, through June 30, 2011.

Our audit disclosed that the county underremitted \$94,228 in court revenues to the State Treasurer because it underremitted 50% excess of fines, fees, and penalties to the State Treasurer for seven fiscal years from July 1, 2004, through June 30, 2011.

The county should differentiate the individual accounts making up this amount on the bottom portion of the monthly TC-31, Remittance to State Treasurer, in accordance with standard remittance procedures. The county should state on the remittance advice that the account adjustments relate to the SCO audit for the period of July 1, 2004, through June 30, 2011.

Please mail a copy of the TC-31 and documentation supporting the corresponding adjustment(s) to the attention of the following individuals:

Joe Vintze, Audit Manager
Division of Audits
State Controller's Office
Post Office Box 942850
Sacramento, CA 94250-5874

Cindy Giese, Collections Supervisor
Division of Accounting and Reporting
Bureau of Tax Administration
Post Office Box 942850
Sacramento, CA 94250-5872

Once the county has paid the underremitted Trial Court Improvement Fund amount, we will calculate a penalty on the underremitted amount in accordance with Government Code sections 68085, 70353, and 70377.

The county disputes certain facts related to the conclusions and recommendations contained in this audit report. The SCO has an informal audit review process to resolve a dispute of facts. To request a review, the county should submit a written request for a review, along with supporting documents and information pertinent to the disputed issue(s), within 60 days of receiving this final report. The review request should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter Steven Mar, Chief, Local Government Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, CA 95250-5874.

If you have any questions, please contact Mr. Mar at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: John Judnick, Senior Manager
Internal Audit Services
Judicial Council of California
Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board
Greg Jolivette
Legislative Analyst's Office
Sandeep Singh, Fiscal Analyst
Division of Accounting and Reporting
State Controller's Office
Cindy Giese, Supervisor, Tax Programs Unit
Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) performed an audit to determine the propriety of court revenues remitted to the State of California by Santa Cruz County for the period of July 1, 2004, through June 30, 2011.

Our audit disclosed that the county underremitted \$94,228 in court revenues to the State Treasurer because it underremitted 50% excess of fines, fees, and penalties to the State Treasurer for the seven fiscal years from July 1, 2004, through June 30, 2011.

Background

State statutes govern the distribution of court revenues, which include fines, penalties, assessments, fees, restitutions, bail forfeitures, and parking surcharges. Whenever the State is entitled to a portion of such money, the court is required by Government Code (GC) section 68101 to deposit the State's portion of court revenues with the county treasurer as soon as practical and provide the county auditor-controller with a monthly record of collections. This section further requires that the county auditor transmit the funds and a record of the money collected to the State Treasurer at least once a month.

GC section 68103 requires that the SCO determine whether or not all court collections remitted to the State Treasurer are complete. GC section 68104 authorizes the State Controller to examine records maintained by any court. Furthermore, GC section 12410 provides the SCO with general audit authority to ensure that state funds are properly safeguarded.

Objective, Scope, and Methodology

Our audit objective was to determine whether the county completely and accurately remitted court revenues in a timely manner to the State Treasurer for the period of July 1, 2004, through June 30, 2011. We did not review the timeliness of any remittances the county may be required to make under GC sections 70353, 77201.1(b)(1), and 77201(b)(2).

To meet our objective, we reviewed the revenue processing systems within the county's Superior Court, Probation Department, and Auditor-Controller's Office.

We performed the following procedures:

- Reviewed the accuracy of distribution reports prepared by the county, which show court revenue distributions to the State, the county, and the cities located within the county
- Gained an understanding of the county's revenue collection and reporting processes by interviewing key personnel and reviewing documents supporting the transaction flow

- Analyzed various revenue accounts reported in the county's monthly cash statements for unusual variations and omissions
- Evaluated the accuracy of revenue distribution, using as criteria various California codes and the SCO's Manual of Accounting and Audit Guidelines for Trial Courts
- Tested for any incorrect distributions
- Expanded any tests that revealed errors to determine the extent of any incorrect distributions

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the county's financial statements. We considered the county's internal controls only to the extent necessary to plan the audit. This report relates solely to our examination of court revenues remitted and payable to the State of California. Therefore, we do not express an opinion as to whether the county's court revenues, taken as a whole, are free from material misstatement.

Conclusion

Santa Cruz County underremitted \$94,228 in court revenues to the State Treasurer. The underremittances are summarized in Schedule 1 and described in the Findings and Recommendations section of this report.

Follow-Up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued in February 2006.

Views of Responsible Officials

We issued a draft report on July 3, 2012. We did not receive a response from the county or the courts. We contacted the County Auditor-Controller's Office and the Court on July 31, 2012 to elicit a comment on the draft audit report. The Accounting Manager at the Auditor-Controller's Office and the Court Executive Officer said they were following the choice given in the transmittal letter and not responding to the draft audit report.

Restricted Use

This report is solely for the information and use of Santa Cruz County, the Santa Cruz County Courts, the Judicial Council of California, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

September 5, 2012

**Schedule 1—
Summary of Audit Findings by Fiscal Year
July 1, 2004, through June 30, 2011**

<u>Description of Finding</u> <u>Account Title</u> ¹ – <u>Code Section</u>	<u>Fiscal Year</u>							<u>Total</u>	<u>Reference</u> ²
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>		
<u>County</u>									
Underremitted 50% excess of fines, fees, and penalties									
State Trial Improvement Fund– Government Code §77205	\$ 13,172	\$ 15,394	\$ 14,640	\$ 20,583	\$ 12,046	\$ 10,787	\$ 7,606	\$ 94,228	Finding 1
Net amount underpaid to the State Treasurer	\$ 13,172	\$ 15,394	\$ 14,640	\$ 20,583	\$ 12,046	\$ 10,787	\$ 7,606	\$ 94,228	

¹ The identification of State revenue account titles should be used to ensure proper recording when preparing the remittance advice form TC-31 to the State Treasurer.

² See the Findings and Recommendations section.

**Schedule 2—
Summary of Underremittances by Month
Trial Court Improvement Fund
July 1, 2004, through June 30, 2011**

Month	Fiscal Year						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
July	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
August	—	—	—	—	—	—	—
September	—	—	—	—	—	—	—
October	—	—	—	—	—	—	—
November	—	—	—	—	—	—	—
December	—	—	—	—	—	—	—
January	—	—	—	—	—	—	—
February	—	—	—	—	—	—	—
March	—	—	—	—	—	—	—
April	—	—	—	—	—	—	—
May	—	—	—	—	—	—	—
June	13,172	15,394	14,640	20,583	12,046	10,787	7,606
Total underremittances to the State Treasurer	<u>\$ 13,172</u>	<u>\$ 15,394</u>	<u>\$ 14,640</u>	<u>\$ 20,583</u>	<u>\$ 12,046</u>	<u>\$ 10,787</u>	<u>\$ 7,606</u>

NOTE: Delinquent Trial Court Improvement Fund remittances not remitted to the SCO within 45 days of the end of the month in which the fees were collected are subject to penalty, pursuant to Government Code section 68085(h). The SCO will calculate and bill the county for the penalty amount after the county pays the underlying amount owed.

Findings and Recommendations

**FINDING 1—
Underremitted 50%
excess of qualified
fines, fees, and
penalties**

The County Auditor-Controller's Office underremitted by \$94,228 the 50% excess of qualified fines, fees, and penalties to the State Treasurer for seven fiscal years starting July 1, 2004, and ending June 30, 2011.

Government Code (GC) section 77201(b)(2) requires Santa Cruz County, for its base revenue obligation, to remit \$1,902,096 for fiscal year (FY) 2004-05 and each fiscal year thereafter. In addition, GC section 77205(a) requires the county to remit to the Trial Court Improvement Fund 50% of qualified revenues that exceed the stated base for each fiscal year.

The error occurred because the county used incorrect entries in the maintenance-of-effort (MOE) distribution working papers.

The qualified revenues reported for FY 2004-05 were \$3,204,270. The excess, above the base of \$1,902,096, is \$1,302,174. This amount should be divided equally between the county and the State, resulting in \$651,087 excess due the State. The county has remitted a previous payment of \$637,915, causing an underremittance of \$13,172.

The qualified revenues reported for FY 2005-06 were \$3,149,549. The excess, above the base of \$1,902,096, is \$1,247,453. This amount should be divided equally between the county and the State, resulting in \$623,727 excess due the State. The county has remitted a previous payment of \$608,333, causing an underremittance of \$15,394.

The qualified revenues reported for FY 2006-07 were \$2,903,882. The excess, above the base of \$1,902,096, is \$1,001,786. This amount should be divided equally between the county and the State, resulting in \$500,893 excess due the State. The county has remitted a previous payment of \$486,253, causing an underremittance of \$14,640.

The qualified revenues reported for FY 2007-08 were \$2,648,511. The excess, above the base of \$1,902,096, is \$746,415. This amount should be divided equally between the county and the State, resulting in \$373,208 excess due the State. The county has remitted a previous payment of \$352,625, causing an underremittance of \$20,583.

The qualified revenues reported for FY 2008-09 were \$2,607,302. The excess, above the base of \$1,902,096, is \$705,206. This amount should be divided equally between the county and the State, resulting in \$352,603 excess due the State. The county has remitted a previous payment of \$340,557, causing an underremittance of \$12,046.

The qualified revenues reported for FY 2009-10 were \$2,495,935. The excess, above the base of \$1,902,096, is \$593,839. This amount should be divided equally between the county and the State, resulting in \$296,920 excess due the State. The county has remitted a previous payment of \$286,133, causing an underremittance of \$10,787.

The qualified revenues reported for FY 2010-11 were \$2,474,868. The excess, above the base of \$1,902,096, is \$572,772. This amount should be divided equally between the county and the State, resulting in \$286,386 excess due the State. The county has remitted a previous payment of \$278,780, causing an underremittance of \$7,606.

The following table shows the effect of underremittances:

Account Title	Understated/ (Overstated)
Trial Court Improvement Fund–GC §77205:	
FY 2004-05	\$ 13,172
FY 2005-06	15,394
FY 2006-07	14,640
FY 2007-08	20,583
FY 2008-09	12,046
FY 2009-10	10,787
FY 2010-11	7,606
County General Fund	(94,228)

Recommendation

The county should remit \$94,228 to the State Treasurer and report on the Remittance Advice Form (TC-31) an increase to the Trial Court Improvement Fund-Government Code section 77205. The county also should make the corresponding account adjustments.

FINDING 2— Inappropriate distribution of DNA and EMAT penalties

The Santa Cruz County Probation Department did not update the required distributions for state DNA penalties from June 2010 through June 2011, nor did it levy the \$4 state emergency medical air transportation (EMAT) penalty starting in January 2011. Department personnel indicated that the required distribution was not updated.

Starting June 10, 2010, Government Code (GC) section 76104.7 requires a \$3 penalty for every \$10 or fraction thereof upon every fine, penalty, and forfeiture levied on criminal offenses including traffic offenses, but excluding parking offenses. The DNA Identification Penalty Assessment is levied and collected in the same manner as the State Penalty imposed per Penal Code (PC) section 1464. The entire penalty (100%) should be distributed, including interest, to the State DNA Identification Fund.

Starting on January 1, 2011, GC section 76000.10 requires a \$4 penalty upon every fine levied on criminal offenses including traffic offenses, but excluding parking offenses.

Failure to make the required priority distribution causes distributions to the State and county to be inaccurately stated. Measuring the dollar effect did not appear to be either material or cost effective due to the difficulty in identifying and redistributing the various accounts.

Recommendation

The Santa Cruz Probation Department should take steps to ensure that DNA and EMAT penalties are distributed in accordance with the statutory requirements.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>